FDIC State Profile

Winter 2004

Michigan

Michigan's economic recovery remains lackluster.

- Michigan continues to lose jobs, although the recent pace was less severe than during 2001 through 2003. Employment fell 1 percent in the year ending third quarter, ranking Michigan among the weakest nationwide. The manufacturing sector, which accounts for about 16 percent of Michigan jobs, trimmed payrolls more than other sectors in the past year (See Chart 1).

- The motor vehicle and parts industry, which accounts for about one third of Michigan's manufacturing jobs, is a source of recent weakness. These firms cut payrolls by 18,400, accounting for 84 percent of manufacturing jobs lost during the past year. Increased costs of metal and petroleum-based products are dampening profitability of parts suppliers and vehicle producers face a number of challenges, suggesting that the state is unlikely to see near-term job growth in this sector.

Financial weakness remains in some households.

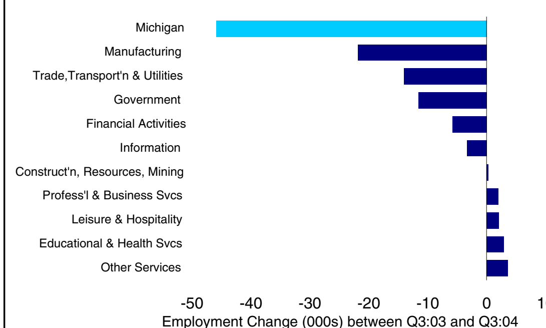
- Michigan's personal income growth of 3.2 percent in the first half of 2004 was slightly slower than in 2003 but roughly twice the pace of 2001 and 2002. Growth in wages and salaries, running about 3 percent, has been complemented by an upturn in dividends, interest, and rents, which account for about 14 percent of personal income in the state.

- Home price appreciation in Michigan remains moderate (See Chart 2). Consequently, the net worth of Michigan homeowners is benefiting less from home price appreciation than in some other states.

- Sluggish appreciation reflects that resale activity softened noticeably in recent quarters, and residential permits also are ebbing. These developments likely reflect Michigan's lackluster economic recovery and the aftermath of a flurry of sales and permits in 2003, in anticipation of rising mortgage rates.

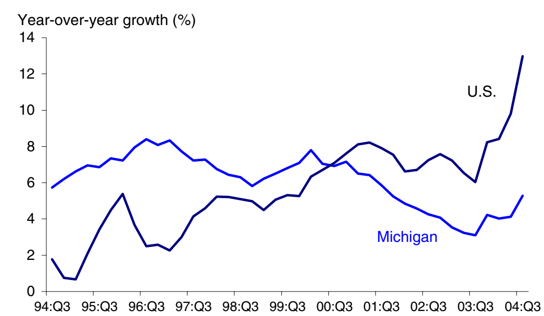
- Residential mortgage past-due and foreclosure rates remain elevated relative to the historical experience of the state and the nation. The 90-day delinquency rate for fixed-rate conventional mortgages held by Michigan households

Chart 1: Job Losses Persist in Michigan



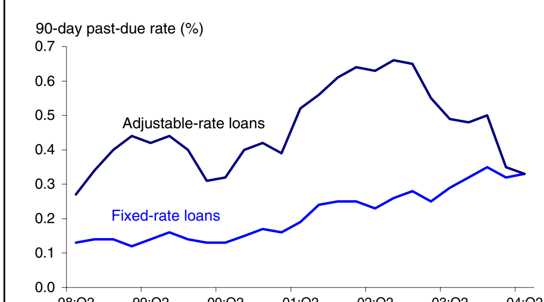
Source: Bureau of Labor Statistics

Chart 2: Home Price Appreciation is Modest



Source: Office of Federal Housing Enterprise Oversight

Chart 3: Conventional Mortgage Past-Due Rates Show Mixed Trends in Michigan



Source: Mortgage Bankers Association

continues to trend upward, whereas the past-due rate for adjustable-rate mortgages has returned to pre-recession levels (See Chart 3).

Community institutions' performance has strengthened.[1]

- Profitability rose in the third quarter compared with a year earlier (See Table 1). Banks and thrifts reduced taxes and overhead expenses, primarily salaries and benefits, and posted modest gains in net interest income and noninterest income.

- Strong loan growth and rising interest rates helped asset yields rise and contributed to improvement in the net interest margin.

- Loan growth pushed the aggregate loan-to-asset ratio to 75 percent from 72 percent a year earlier. The most noteworthy growth was in the construction and development (C&D) segment, which grew more than 25 percent.

- Community institutions increasingly turned to large time deposits and brokered deposits to fund asset growth. Core funding declined during the past year, as did other borrowings such as Federal Home Loan Bank advances.

Community institutions' asset quality trends are favorable.

- Community banks and thrifts benefited from improved asset quality during the past 12 months, as delinquencies moderated and reserve coverage of nonperforming loans increased. To an unknown extent, rapid loan growth recently and the lack of seasoning of new loans also could be boosting broad measures of asset quality.

- The overall delinquency rate fell during the past year from 2.93 percent to 2.28 percent of total loans, and all major loan segments experienced improvement (See Chart 4).

- Looking ahead, community banks will need to monitor their exposure to C&D loans. During the past year, C&D loans grew rapidly and now represents more than 9 percent of total loans, the highest percentage in the Chicago Region. Future interest rate increases may pressure the feasibility of some commercial real estate projects.

Fewer headquarters and modest branching characterize the past decade.

- Michigan, like the nation, experienced significant bank consolidation from 1994 to 2004, with the number of head offices declining by 26 percent (See Chart 5).

- Unlike the rest of the U.S., Michigan has not experienced strong branch office growth. The Grand Rapids metropolitan area is an exception, with its stronger demographic trends likely prompting more branch growth.

- Reflecting these developments, bank and thrift deposits in Michigan rose 45 percent during the past decade, about 10 percentage points slower than the national median.

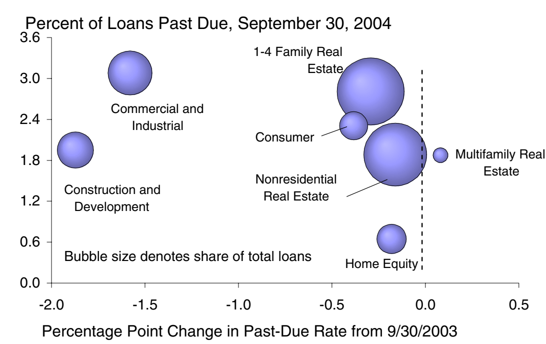
Table 1: Lower Noninterest Expenses Help Community Institutions' Performance

Income statement contribution (as a percentage of average assets)

	3 months ended September 30		Percentage Point Change
	2003	2004	
Net Interest Income	3.73	3.76	0.03
Noninterest Income	1.34	1.39	0.05
Noninterest Expense	-3.33	-3.17	0.16
Provision Expense	-0.20	-0.18	0.02
Security Gains & Losses	0.04	0.02	-0.02
Income Taxes	-0.47	-0.54	-0.07
Net Income (ROA)	1.11	1.28	0.17

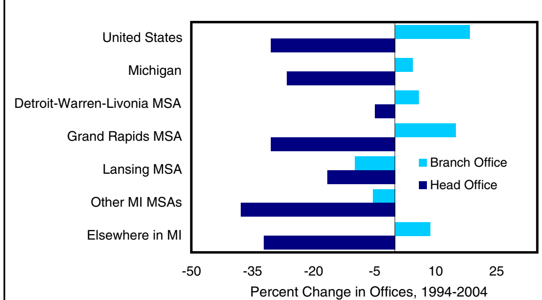
Source: FDIC

Chart 4: Most Past-Due Rates Improved



Source: FDIC. Michigan's Community Institutions

Chart 5: Branch Growth Trails the Nation



Source: FDIC/OTS Summary of Deposits

[1]Community institutions are insured banks and thrifts with less than $1 billion in assets, excluding new (less than three years old) and specialty banks and thrifts.

Michigan at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	174	179	180	182	192
Total Assets (in thousands)	198,144,580	191,797,525	166,930,704	172,895,338	168,462,657
New Institutions (# < 3 years)	5	8	13	21	24
New Institutions (# < 9 years)	38	38	39	38	37

Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	9.19	9.13	8.87	8.76	9.02

Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	1.87%	2.02%	2.10%	2.24%	1.64%
Past-Due and Nonaccrual >= 5%	14	24	15	23	18
ALLL/Total Loans (median %)	1.24%	1.33%	1.29%	1.24%	1.27%
ALLL/Noncurrent Loans (median multiple)	1.78	1.43	1.37	1.73	2.30
Net Loan Losses/Loans (aggregate)	0.31%	0.53%	0.62%	0.50%	0.23%

Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	8	11	14	20	17
Percent Unprofitable	4.60%	6.15%	7.78%	10.99%	8.85%
Return on Assets (median %)	0.97	1.13	1.15	1.09	1.15
25th Percentile	0.70	0.77	0.75	0.73	0.78
Net Interest Margin (median %)	4.05%	4.13%	4.31%	4.33%	4.48%
Yield on Earning Assets (median)	5.69%	6.09%	6.94%	8.14%	8.36%
Cost of Funding Earning Assets (median)	1.69%	2.06%	2.63%	3.84%	3.91%
Provisions to Avg. Assets (median)	0.14%	0.19%	0.20%	0.17%	0.15%
Noninterest Income to Avg. Assets (median)	0.70%	0.94%	0.72%	0.69%	0.64%
Overhead to Avg. Assets (median)	2.97%	3.07%	3.05%	3.11%	3.14%

Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	93.50%	90.34%	89.63%	90.35%	89.36%
Loans to Assets (median %)	75.15%	73.44%	73.95%	74.08%	74.59%
Brokered Deposits (# of Institutions)	68	64	64	56	54
Bro. Deps./Assets (median for above inst.)	7.97%	7.02%	7.26%	4.02%	7.73%
Noncore Funding to Assets (median)	19.71%	17.89%	20.19%	20.93%	21.43%
Core Funding to Assets (median)	68.02%	70.83%	68.69%	68.30%	67.74%

Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	102	102	102	101	104
National	23	26	27	27	28
State Member	29	31	31	34	37
S&L	2	2	2	2	2
Savings Bank	13	13	13	14	14
Stock and Mutual SB	5	5	5	4	7

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	74	11,575,305	42.53%	5.84%
Detroit MI PMSA	38	117,723,602	21.84%	59.41%
Grand Rapids-Muskegon-Holland MI	19	46,504,453	10.92%	23.47%
Ann Arbor MI PMSA	11	2,618,242	6.32%	1.32%
Lansing-East Lansing MI	10	7,612,876	5.75%	3.84%
Saginaw-Bay City-Midland MI	6	3,485,690	3.45%	1.76%
Kalamazoo-Battle Creek MI	6	539,396	3.45%	0.27%
Flint MI PMSA	4	6,198,797	2.30%	3.13%
Benton Harbor MI	4	1,760,585	2.30%	0.89%
Jackson MI	2	125,634	1.15%	0.06%